

Message Text

LIMITED OFFICIAL USE

PAGE 01 LIMA 07012 181616Z
ACTION H-03

INFO OCT-01 ARA-10 ISO-00 SS-07 NSC-06 AID-01 /028 W
-----084742 181622Z /44

P 181354Z AUG 77
FM AMEMBASSY LIMA
TO SECSTATE WASHDC PRIORITY 6217

LIMITED OFFICIAL USE LIMA 7012

HOLD FOR CUTTER

E.O. 11652: N/A
TAGS: OREP PGOV
SUBJECT: CODELS YATRON AND WOLFF: MEETING WITH THE PRESIDENT

1. THE CODELS CALLED ON PRESIDENT MORALES BERMUDEZ AT THE NATIONAL PALACE SHORTLY AFTER NOON, AUGUST 15. THE MEETING LASTED ABOUT NINETY MINUTES. CONGRESSMEN YATRON, WOLFF, BURKE, FINDLEY, GIAIMO, GILMAN, LAGOMARSINO, MYERS, FASCELL, NEAL, AND DE LA GARZA WERE PRESENT. FOREIGN MINISTER DE LA PUENTE AND I WERE ALSO ON HAND.
2. MOST OF THE MEETING WAS TAKEN UP WITH A LENGTHY STATEMENT BY MORALES BERMUDEZ COVERING THE GOP'S ECONOMIC, POLITICAL AND FOREIGN POLICY CONCERNS. CHAIRMEN YATRON AND WOLFF MADE BRIEF RESPONSES ON BEHALF OF THEIR RESPECTIVE DELEGATIONS AT THE END OF THE AFFAIR. IN ACCORDANCE WITH THE PRESIDENT'S PRIOR REQUEST, THERE WAS NO QUESTION-AND-ANSWER PERIOD. FOLLOWING ARE THE HIGHLIGHTS OF THE PRESIDENT'S PRESENTATION.
3. ECONOMIC. MORALES BERMUDEZ BEGAN WITH THE BACKGROUND TO PERU'S CURRENT FINANCIAL TROUBLE. DURING THE EARLIER YEARS OF THE REVOLUTION PERU WAS CUT OFF BY THE INTERNATIONAL LENDING INSTITUTIONS AS A RESULT OF THE

LIMITED OFFICIAL USE

PAGE 02 LIMA 07012 181616Z

NATIONALIZATIONS AND "OTHER MEASURES" TAKEN BY THE REVOLUTIONARY GOVERNMENT. EXTENSIVE BORROWING FROM THE FOREIGN BANKS FOR DEVELOPMENT PURPOSES FOLLOWED. MANY OF THESE LOANS WERE AT RELATIVELY SHORT-TERM AND HIGH-INTEREST RATES. THE RESULT IS AN ONEROUS EXTERNAL DEBT STRUCTURE. THE PRESIDENT ASSERTED AT SEVERAL POINTS THAT THE PROBLEM IS NOT THE SIZE OF PERU'S DEBT

BUT ITS STRUCTURE".

4. ACCORDING TO MORALES BERMUDEZ, THE OTHER PRIMARY SOURCE OF THE COUNTRY'S FINANCIAL FIX IS THE EXTREME SHORTFALL IN ANTICIPATED EXPORT EARNINGS. AT THE LAST MEETING OF THE PERU CONSULTATIVE GROUP IN 1975 WORLD BANK AND IMF REPRESENTATIVES ANTICIPATED EXPORT EARNING OF \$2.8 BILLION IN 1977 AND CONSEQUENTLY "APPROVED" PERU'S CONTRACTING DEBT IN APPROXIMATELY THE SAME AMOUNT DURING THE 1975-77 PERIOD. PERUVIAN EXPORTS THIS YEAR WILL FALL ABOUT A BILLION DOLLARS SHORT.

5. THE PRESIDENT CONCEDED THAT ERRORS HAD BEEN MADE IN MANAGING THE COUNTRY'S ECONOMY BUT INSISTED THAT THESE ARE BEING CORRECTED. THE FISCAL DEFICIT HAS BEEN THE PRINCIPAL INTERNAL PROBLEM. THIS IS BEING ATTACKED BY MEASURES TO MAKE THE STATE ENTERPRISES "INCOME-PRODUCING" ("RENTABLE") AND BY PROGRESSIVE REDUCTIONS IN GOVERNMENT SUBSIDIES. THE LATTER IS BEING ACCOMPLISHED GRADUALLY TO AVOID THE SEVERE ECONOMIC AND SOCIAL CONSEQUENCES THAT MORE DRASTIC ACTION WOULD PRODUCE. BUT THERE HAS BEEN CONSIDERABLE PROGRESS AND ONLY MINIMAL SUBSIDIES ON SUCH ESSENTIAL FOOD PRODUCTS AS MILK WILL BE MAINTAINED.

6. THE PRESIDENT SAID HE UNDERSTANDS THAT THE IMF HAS LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 LIMA 07012 181616Z

ITS REQUIREMENTS FOR STANDBY AGREEMENTS, BU THE GOP FOR ITS PART MUST TAKE INTO ACCOUNT POLITICAL REALITIES AND THE COUNTRY'S SOCIAL PROBLEMS. ON ONE SIDE ARE THE DEMANDS OF THE IMF; ON THE OTHER ARE THE HUMAN RIGHTS POLICIES OF PRESIDENT CARTER, WHICH ARE ALSO, OF COURSE, INTERNATIONAL NORMS APPLYING TO ALL COUNTRIES. THAT IS THE DILEMMA. IT HAD BEEN NECESSARY TO POSTPONE THE DISCUSSIONS WITH THE IMF UNTIL THE NEW ECONOMIC PROGRAM COULD BE PUT IN PLACE. BUT THE GOP WILL SHORTLY BE IN A POSITION TO GO BACK TO THE IMF. ALTHOUGH THE NEGOTIATIONS WILL BE DIFFICULT, MORALES BERMUDEZ IS OPTIMISITC THAT AGREEMENT WITH THE IMF WILL ULTIMATELY BE POSSIBLE.

7. HE ALSO ASSERTED THAT PERU'S ECONOMIC SITUATION IS NOT AS BAD AS THE INTERNATIONAL PRESS IN PARTICULAR WOULD MAKE IT OUT TO BE. IRVING FRIEDMAN OF CITIBAN HAD REMAKRED DURING A VISIT TO THE PRESIDENT'S OFFICE LAST WEEK THAT THE COUNTRY IS PASSING THROUGH A DIFFICULT PERIOD, BUT NOT ONE OF "ECONOMIC CHAOS/ AS IS SOMETIMES THE IMPRESSION ABOROAD. THE PRESIDENT EMPHASIZED IN CONCLUDING THIS REMAKRS ON THE ECONOMIC

SITUATION THAT PERU FULLY INTENDS TO MAINTAIN AND STRENGTHEN ITS RELATIONS WITH THE IMF AND THE FOREIGN BANKS.

8. POLITICAL. HE BEGAN THIS PORTION OF HIS EXPOSITION WITH THE STATEMENT THAT THE ARMED FORCES LOOK ON THE FIRST AND SECOND PHASES OF THE REVOLUTION AS AN ORGANIC WHOLE, NOT AS SEPARATE AND DISTINCT PROCESSES. THERE HAVE BEEN CHANGES FROM ONE TO ANOTHER IN THE LEADERSHIP OF THE GOVERNMENT AND IN CERTAIN "POLITICAL PROCEDURES", BUT IT IS ALL ONE PROCESS DESIGNED TO PRODUCE SOCIAL JUSTICE AND FUNDAMENTAL CHANGE IN THE STRUCTURE OF PERUVIAN SOCIETY. THESE CHANGES MUST REMAIN INTACT AS THE TRANSFER TO CIVILIAN GOVERNMENT TAKES PLACE.
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 LIMA 07012 181616Z

9. HE AS THE MAN CHARGED WITH THE POLITICAL LEADERSHIP OF THE REVOLUTION REJECTS AS "IMPRUDENT" THE CALL OF CERTAIN POLITICAL PARTIES FOR IMMEDIATE ELECTIONS. THE TRANSITION MUST BE DELIBERATE AND ORDERLY, PARTICULARLY GIVEN THE NEED FOR TIME TO RESOLVE PERU'S MORE PRESSING ECONOMIC PROBLEMS. THAT DOES NOT MEAN THAT THE COUNTRY MUST BE IN AN IDEAL STATE AT THE TIME OF THE CHANGE, BUT ONLY THAT THE GRAVEST PROBLEMS SHOULD BE SOLVED IN THE INTERESTS OF THE NEW GOVERNMENT. IN ANY CASE, THE DECISION TO TRANSFER POWER IN 1980 TO A CIVILIAN GOVERNMENT IS "DEFINITIVE".

10. THE FIRST STEP WILL BE THE CONVOCAION OF A CONSTITUENT ASSEMBLY NEXT YEAR. PERU NEEDS A NEW CONSTITUTION TO PRESERVE THE REFORMS OF THE REVOLUTION AND TO ESTABLISH A STABLE SYSTEM THAT WILL PREVENT THE "PENDULUM" MOVEMENTS OF THE PAST (FROM CIVILIAN TO MILITARY REGIMES AND BACK). THE POLITICAL PARTIES HAVE AN ESSENTIAL ROLE TO PLAY IN THE COMING PROCESS. BUT THE NON-PARTY ORGANIZATIONS OF CAMPESINOS, WORKERS AND THE LIKE THAT AROSE DURING THE REVOLUTION -- AND IN SOME CASES PRIOR TO IT -- MUST HAVE THEIR PLACE TOO. THE GOVERNMENT IS NOW LOOKING AT WAYS TO ENABLE THEIR PARTICIPATION IN THE CONSTITUENT ASSEMBLY. PREPARATIONS FOR THAT LATTER EVENT ARE UNDER WAY AS EVIDENCED BY THE RECENT DECREE-LAW EXTENDING THE LIFE OF THE ELECTORAL REGISTRY FOR FIVE YEARS.

1. FOREIGN RELATIONS. THE PRESIDENT NOTED THAT PERU'S RELATIONS WITH THE UNITED STATES ARE CURRENTLY "EXCELLENT" AS EVIDENCED IN MRS. CARTER'S VISIT AND THAT OF THE CONGRESSMEN THEMSELVES. PERU'S FOREIGN POLICY IS
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 05 LIMA 07012 181616Z

DIRECTED AT MAINTAINING RELATIONS OF "MUTUAL RESPECT" AROUND THE WORLD AND TOWARD AN ACTIVE ROLE IN THE THIRD WORLD. BUT THE GOP GIVES HIGHEST PRIORITY TO ITS REGIONAL AND SUB-REGIONAL RELATIONSHIPS. THE EMPHASIS HERE IS ONE PEACE AND FRIENDSHIPS. ELEMENTS OF THE FOREIGN PRESS AND OTHERS HAVE TRIED TO DEPICT PERUVIAN POLICY AS BELLIGERENT. BUT NOTHING COULD BE FURTHER FROM THE TRUTH. PERU IS UNALTERABLY "PACIFIST", NEVER THE AGGRESSOR BUT OFTEN THE VICTIM OF AGGRESSION IN THE PAST.

12. MORALES BERMUDEZ REFERRED TO PERU'S EXTENSIVE NATIONAL TERRITORY AND MANY NATIONAL BOUNDARIES AS JUSTIFICATION FOR ACQUIRING ARMAMENTS. THESE WERE NEEDED TO REPLACE OBSOLETE WEAPONS AND EQUIPMENT. THE ARMED FORCES DO NOT SEEK THE MOST SOPHISTICATED TECHNOLOGY, BUT ONLY AN "ADEQUATE" TECHNOLOGICAL LEVEL. THE PRESIDENT THEN SAID THAT HE STRONGLY FAVORS REDUCTIONS IN MILITARY SPENDING. ARMS PURCHASES HAD BEEN NECESSARY TO ENSURE THAT NATIONAL DEFENSE NEEDS COULD BE MET. BUT NOW, THE PRESIDENT SAID, PERU SHOULD BE ABLE TO ENJOY A BREATHING SPACE ("RESPIRO") OF TEN TO FIFTEEN YEARS DURING WHICH THE COUNTRY'S RESOURCES COULD BE DEVOTED TO DEVELOPMENT. MORALES BERMUDEZ CLOSED WITH EXPRESSIONS OF APPRECIATION FOR THE CONGRESSMEN'S VISIT.

13. ABOVE MEMCON HAS BEEN CLEARED BY CODELS YATRON AND WOLFF PER STANTIAGO 6720. THIS MESSAGE MAY BE DECLASSIFIED BY DEPT IS DESIRED.
SHLAUDEMANN

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PRESIDENT, CODELS, DIPLOMATIC DISCUSSIONS
Control Number: n/a
Copy: SINGLE
Sent Date: 18-Aug-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977LIMA07012
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770298-0519
Format: TEL
From: LIMA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770849/aaaabpiv.tel
Line Count: 205
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: ac0f8b58-c288-dd11-92da-001cc4696bcc
Office: ACTION H
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 06-Apr-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1563995
Secure: OPEN
Status: NATIVE
Subject: CODELS YATRON AND WOLFF: MEETING WITH THE PRESIDENT
TAGS: OREP, PGOV, PE, (MORALES BERMUDEZ CERRUTTI, FRANCISC)
To: STATE
Type: TE
vdkgvwkey: odhc://SAS/SAS.dbo.SAS_Docs/ac0f8b58-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009